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September 2, 2003

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 Twelfth Street, S.W., Room TW-A325
Washington, D.C. 20554

RE: In the Matter of Applications for Consent to the Transfer of Control of Licenses
and Section 214 Authorizations from Ameritech Corporation, Transfer, To SBC
Communications, Inc., Transferee, (CC Docket No. 98-141)

Dear Ms. Dortch:

Pursuant to Appendix C (Merger Conditions) regarding SBC Communications Inc.'s
(SBC) compliance with the conditions set forth in the Federal Communications
Commission's (FCC's) Order approving the SBC/Ameritech Merger, SBC submits
herein the report of its independent auditor, Ernst & Young LLP, regarding its
compliance during the period January 1, 2002 through December 31, 2002.

Once SBC has had an opportunity to thoroughly conduct a review of the report and the
auditor's work paper, SBC will be prepared to respond to or otherwise address any issues
contained in them.

If you have any questions regarding this report please contact me at (202) 326-8919.

Sincerely,

Attachments

Cc: Mr. Hugh Boyle
Mr. William Davenport
Ms. Mika Savir
Mr. Pete Young

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**SBC/Ameritech Merger Conditions
2002 Compliance Audit Reports
Report Date August 29, 2003**

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2002 Compliance Audit Reports
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Sincerely,

A handwritten signature in black ink, appearing to read "Michelle A. Thomas". The signature is fluid and cursive, with a long horizontal line extending to the right.

Attachments

Cc: Mr. Hugh Boyle
Mr. William Davenport
Ms. Mika Savir
Mr. Pete Young

Report of Independent Accountants

To the Management of SBC Communications Inc.

1. We have examined the effectiveness of SBC Communications Inc.'s (the "Company" or "SBC") controls over compliance with the Merger Conditions¹ during the Evaluation Period² based on the criteria set forth in the Merger Conditions and management's assertion, included in the accompanying Report of Management on the Effectiveness of Controls over Compliance with the Merger Conditions ("Report of Management"), that SBC maintained effective controls over the Company's compliance with the conditions set forth in the Merger Conditions for the Evaluation Period based on the criteria set forth in the Merger Conditions, except as noted therein. Additionally, as discussed in paragraph six below, we have examined the Company's controls over the accuracy and completeness of reported data related to eight service quality measurements calculated under the Business Rules³ for the

¹ Merger Conditions are set forth in Appendix C of the Federal Communications Commission's ("FCC's") Order Approving the SBC/Ameritech Merger (*Applications of Ameritech Corp. and SBC Communications Inc. for Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Section 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95 and 101 of the Commission's Rules*, CC Docket No. 98-141, *Memorandum Opinion and Order*, 14 FCC Rcd 11712 (1999)). Condition 11, "Collocation Compliance," of the Merger Conditions requires the Company to provide collocation consistent with the FCC's Collocation Rules as defined in paragraphs 555-607 in the *Implementation of Local Competition Provisions of the Telecommunications Act of 1996, First Report and Order and Fourth Notice of Proposed Rulemaking*, CC Docket No. 96-98, (FCC 96-325) 11 FCC Rcd 15499 (1996) ("Local Competition Order") and *Deployment of Wireline Service Offering Advanced Telecommunications Capability*, CC Docket No. 98-147, *First Report and Order* (FCC 99-48), 14 FCC Rcd 4761 (1999), and as modified and expanded by *Deployment of Wireline Service Offering Advanced Telecommunications Capability and Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, CC Docket Nos. 98-147 and 96-98, *Order on Reconsideration And Second Further Notice Of Proposed Rulemaking In CC Docket No. 98-147 And Fifth Further Notice of Proposed Rulemaking in CC Docket No. 96-98* (FCC 00-297), 15 FCC Rcd 17806 (2000), as modified by the waiver granted to SBC in *Deployment of Wireline Services Offering Advanced Telecommunications Capability*, CC Docket No. 98-147, *Memorandum Opinion and Order* (DA 00-2528), released November 7, 2000 ("Waiver Order"), as modified and expanded by *Deployment of Wireline Order* (FCC 01-204), 16 FCC Rcd 15435 (2001), including collocation rules codified in 47 C.F.R. Sections 51.319 (a)2(iv), 51.321, and 51.323 as modified by the waiver granted to SBC in the Waiver Order. This examination did not include procedures necessary to determine compliance with the FCC's pricing rules.

² The Evaluation Period is described in Attachment D of our Report of Independent Accountants on SBC's Compliance with the Merger Conditions also dated August 29, 2003.

³ "Business Rules" refers to the criteria agreed to by the Company and the FCC Staff on August 13, 2001 for reporting additional service quality results. These Business Rules are documented <https://clec.sbc.com/clec/shell.cfm?section=34> and replace Sections III.1, III.2., and III.3. of the NARUC White Paper related to the reporting requirements of Condition 24.

To the Management of SBC Communications Inc.

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Evaluation Period and management's assertion, included in the accompanying Report of Management, that the Company maintained effective controls over the process to calculate and report accurate and complete data for the eight service quality measurements in accordance with the Business Rules for the Evaluation Period, except as noted therein. The Company's management is responsible for maintaining effective controls over compliance with the Merger Conditions and for maintaining effective controls over the process to calculate and report accurate and complete service quality data measurements in accordance with the Business Rules. Our responsibility is to express an opinion based on our examination.

2. At the direction of the FCC Staff and the Company, this examination does not address the Company's controls over compliance with Condition 1. Condition 1 is addressed in a separate agreed-upon procedures engagement report of Ernst & Young LLP.
3. Except as discussed in paragraphs two and seven b, our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the Company's controls over compliance with the requirements referenced above, testing and evaluating the design and operating effectiveness of those controls, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.
4. Because of inherent limitations in any control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of controls over compliance with the requirements referenced above to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.
5. Condition 19, "Shared Transport in Ameritech States" requires the Company to offer shared transport in the Ameritech States under terms and conditions, other than rate, structure and price, similar to those that it offered in Texas as of August 27, 1999. On October 9, 2002, the FCC issued an Order, *In the Matter of SBC Communications, Inc. Apparent Liability for Forfeiture*, File No. EB-01-IH-0030 NAL/Acct. No. 200232080004 ("Shared Transport Order"), concluding that the Company violated Condition 19 by refusing to allow CLECs in the Ameritech States to utilize "shared transport" to provide end-to-end routing of intraLATA toll calls and required the Company to pay a \$6 million assessment. During the Evaluation Period, the Company allowed CLECs in the Ameritech States to utilize "shared transport" to provide end-to-end routing of intraLATA toll calls in all states except Wisconsin. The Company allowed CLECs utilizing the "shared transport" unbundled network element to

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provide end-to-end routing of intraLATA toll calls in Wisconsin beginning in July 2002. In 2003, the Company paid the \$6 million assessment required by the Shared Transport Order and filed a petition for review with United States Court of Appeals for the District of Columbia, requesting that the Court vacate, enjoin, and set aside the Shared Transport Order on the grounds that the FCC's findings were arbitrary and capricious, not supported by substantial evidence, and otherwise contrary to law. Based on the FCC's interpretation of the requirements of Condition 19 as stated in the Shared Transport Order, the Company did not comply with the requirements of Condition 19 in previous periods and did not comply with Condition 19 in the state of Wisconsin for the period of January 1, 2002 through June 2002. The Company asserts that Condition 19 does not require the Company to allow CLECs in the Ameritech States to utilize shared transport to route intraLATA toll calls. This matter is still pending as of the date of this report.

6. The Merger Conditions require the independent accountant to attest to the accuracy and completeness of the performance data, including restated data, provided to telecommunications carriers and regulators under the Merger Conditions. Based on the FCC Staff's interpretation of the Merger Conditions, the term "performance data" applies to both Condition 7 and Condition 24. However, under the Company's interpretation of the Merger Conditions, the Company does not believe that the scope of the independent accountant's attestation engagement regarding the Company's compliance with the Merger Conditions applies to the accuracy and completeness of service quality data in conjunction with Condition 24, but rather applies only to the accuracy and completeness of performance measurement data provided to telecommunications carriers and regulators in conjunction with Condition 7, "Carrier-to-Carrier Performance Plan." Due to the differing interpretations noted above, the FCC Staff and the Company agreed that Ernst & Young would test and report on the accuracy and completeness of eight service quality measurements as selected by the FCC Staff calculated under the Business Rules, as defined in footnote 3 herein, for the Evaluation Period. The FCC Staff selected eight service quality measures as listed below for Ernst & Young to test and report on the controls over the process to calculate and report accurate and complete service quality measures in accordance with the Business Rules the Evaluation Period.

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Repair – Basic Service:

1. Line Number 300 – Number of closed trouble reports
2. Line Number 301 – Number of repeat trouble reports
3. Line Number 340 – Number of trouble reports coded “out of service”
4. Line Number 341 – Number of trouble reports coded “out of service” with receipt-to-clear duration less than or equal to 24 hours
5. Line Number 345 – Percent service restored within 24 hours
6. Line Number 360 – Number of reports with trouble disposition codes of found OK or test OK
7. Line Number 370 – Number of reports with trouble disposition codes of trouble found on the customer side of demarcation
8. Line Number 385 – Sum of duration of trouble reports

Our examination disclosed that the processes used to produce the eight service quality measures for Condition 24, “Additional Service Quality Reporting” did not include certain controls over some data input functions and some data retrieval functions as well as proper application of the Business Rules. This contributed to the need to restate certain data and modify certain performance measurements on a prospective basis.

7. Our examination disclosed the following related to the Company’s controls over compliance with the Merger Conditions for the Evaluation Period:
 - a. The processes to provide discounts required by Conditions 3, “Advanced Services Operations Support Systems,” 14, “Carrier-to-Carrier Promotions: Unbundled Loop Discount,” and 15, “Carrier-to-Carrier Promotions: Resale Discount,” did not include certain controls to verify that all eligible and requested discounts by Competitive Local Exchange Carriers (“CLECs”) were provided within the established time frames as specified in the Merger Conditions. Control deficiencies in The Southern New England Telephone Company (“SNET”) included deficiencies in controls to ensure discounts were provided to an eligible CLEC as required by Condition 3. In the Ameritech States⁴, controls did not include processes to ensure loops were properly classified as residential as compared to business resulting in missed discounts on misclassified residential loops and changes to rate tables did not cause eligible CLECs to cease receiving discounts required by Condition 14. Additionally, in the Ameritech States, control deficiencies included deficiencies in the process to ensure discounts were

⁴ “Ameritech States” refers to Illinois Bell Telephone Company; Indiana Bell Telephone Company, Incorporated; Michigan Bell Telephone Company; The Ohio Bell Telephone Company; and Wisconsin Bell, Inc. collectively.

To the Management of SBC Communications Inc.

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provided on resold services on CLEC end-user customers that moved to another location ("T" Orders) as required by Condition 15. Control deficiencies were noted in Southwestern Bell Telephone, L. P. ("SWBT") related to control processes to ensure that all eligible CLECs lines receive discounts within the established time frame of the initial billing for the service as required by Condition 15 for resold services.

- b. The processes used to produce the performance measurements for Condition 7, "Carrier-to-Carrier Performance Plan," did not include certain controls over some data input functions, changes to processes, some detection processes, and certain system controls. This contributed to the need to restate certain data and modify certain performance measurements on a prospective basis. In Section 3, "True-Up Process" documented in the "Compliance Plan of SBC Communications Inc." attached to the Consent Decree released on March 20, 2003, SBC and the FCC agreed that the Company would establish a process for performing a true-up for any errors in the calculation of any voluntary payments and will apply its true-up process to any errors for the performance measurement reports filed with the FCC in the twelve-month period immediately preceding the date of the Consent Decree.⁵ As of the date of this report, the Company has applied the true-up process to the errors in Attachment A of the Report of Independent Accountants on Compliance with the Merger Conditions to this report that were restated but has not yet remitted payment for the amount calculated by the true-up process. Additionally, the Company has not restated certain errors noted on Attachment A of the Report of Independent Accountants on Compliance with the Merger Conditions. Accordingly, we were unable to, and do not, express an opinion on the controls over compliance with the requirement to accurately calculate and remit voluntary payments for 2002.
- c. The processes used to ensure compliance with the FCC's Collocation Rules did not include certain controls, prior to revision of its 13-state policy in May 2003, regarding floor plan submission, to ensure that the Company submitted to state commissions detailed floor plans or diagrams of any premises where the Company claims that physical collocation is not practical because of space limitations in accordance with Part 51.321 (f). Additionally, the processes used to ensure the Company submits to a requesting carrier within ten days a report describing in detail the space that is available for collocation in a particular incumbent LEC premises was not effective.

⁵ The twelve month period covered performance measurement results filed for the months of February 2002 through January 2003.

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- d. The processes used to ensure compliance with Condition 23 did not include controls to ensure that the Company met the requirement to spend an amount no less than the annual promotional budget in the state of Indiana to make potential customers aware of the enhanced Lifeline plan or other programs that benefit low income consumers in that state.
 - e. The processes used to ensure the annual compliance report filed in accordance with Condition 26 did not ensure that the Company reported noncompliance related to Condition 11 related to the notification of space availability to requesting CLECs within the required timeline, Condition 15 related to discounts not provided to eligible CLEC lines in SWBT, and Condition 23 as it relates to the requirement to spend an annual amount no less than the annual promotional budget set for that state.
8. In our opinion, limited as to controls over compliance with Conditions 1 and 7 as discussed in paragraph two and seven b of this report, and considering the Company's interpretation of the Merger Conditions as described in paragraph five, and except for the effect of the control deficiencies described in paragraph seven above, the Company maintained, in all material respects, effective controls over compliance with the Merger Conditions for the Evaluation Period based upon the criteria set forth in the Merger Conditions. Additionally, pertaining to Condition 24, except for the control deficiencies described in paragraph six above, the Company maintained, in all material respects, effective controls over the process to calculate and report accurate and complete data for the eight service quality measurements discussed in paragraph six above in accordance with the Business Rules for the Evaluation Period.
9. This report is intended solely for the information and use of the Company and the FCC and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



August 29, 2003



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Report of Management on Compliance With the Merger Conditions

Management of SBC Communications Inc. (SBC or the Company) is responsible for complying with the conditions set forth in the Merger Conditions¹ for the Evaluation Period². Additionally, management of SBC is responsible for reporting accurate and complete data related to the reporting of eight service quality measurements calculated under the Business Rules³ for the Evaluation Period. At the direction of the FCC, management's assertions that follow do not relate to compliance over Conditions 1, "Separate Affiliate for Advanced Services". Management is also responsible for establishing and maintaining effective internal control over compliance with the Merger Conditions and for reporting accurate and complete service quality measures calculated under the Business Rules.

Management has performed evaluations of SBC's compliance with the requirements of the Merger Conditions for the Evaluation Period and reporting accurate and complete service quality data in accordance with the Business Rules. Based on these evaluations, we assert

¹ Merger Conditions are set forth in Appendix C of the Federal Communications Commission's ("FCC's") Order Approving the SBC/Ameritech Merger (*Applications of Ameritech Corp. and SBC Communications Inc. for Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Section 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95 and 101 of the Commission's Rules*, CC Docket No. 98-141, *Memorandum Opinion and Order*, 14 FCC Rcd 11712 (1999)). Condition 11, "Collocation Compliance," of the Merger Conditions requires the Company to provide collocation consistent with the FCC's Collocation Rules as defined in paragraphs 555-607 in the *Implementation of Local Competition Provisions of the Telecommunications Act of 1996, First Report and Order and Fourth Notice of Proposed Rulemaking*, CC Docket No. 96-98, (FCC 96-325) 11 FCC Rcd 15499 (1996) ("Local Competition Order") and *Deployment of Wireline Service Offering Advanced Telecommunications Capability*, CC Docket No. 98-147, *First Report and Order* (FCC 99-48), 14 FCC Rcd 4761 (1999), and as modified and expanded by *Deployment of Wireline Service Offering Advanced Telecommunications Capability and Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, CC Docket Nos. 98-147 and 96-98, *Order on Reconsideration And Second Further Notice Of Proposed Rulemaking In CC Docket No. 98-147 And Fifth Further Notice of Proposed Rulemaking in CC Docket No. 96-98* (FCC 00-297), 15 FCC Rcd 17806 (2000), as modified by the waiver granted to SBC in *Deployment of Wireline Services Offering Advanced Telecommunications Capability*, CC Docket No. 98-147, *Memorandum Opinion and Order* (DA 00-2528), released November 7, 2000 ("Waiver Order"), as modified and expanded by *Deployment of Wireline Order* (FCC 01-204), 16 FCC Rcd 15435 (2001), including collocation rules codified in 47 C.F.R. Sections 51.319 (a)2(iv), 51.321, and 51.323 as modified by the waiver granted to SBC in the Waiver Order. Merger Conditions also include Section 1, "Implementation of Control Process" and Section 2, "Regulatory Compliance Group Oversight" documented in the "Compliance Plan of SBC Communications Inc." attached to the "Consent Decree" set forth in the Order and Consent Decree released on March 20, 2003 by the FCC in File No. EB-02-IH-0382 (hereafter Consent Decree).

² The Evaluation Period is described in Attachment C.

³ "Business Rules" refers to the criteria agreed to by the Company and the FCC Staff on August 13, 2001 for reporting additional service quality results. These Business Rules are documented at <https://clec.sbc.com/clec/shell.cfm?section=34> and replace the NARUC White Paper reporting requirements of Condition 24.

Report of Management on Compliance With the Merger Conditions
August 29, 2003

that during the Evaluation Period, SBC complied with all requirements of the Merger Conditions considering the interpretations in assertions 19 and 24 and except as specifically noted in assertions 3.c., 7.a., 11.b., 14.b., 15.a., 23.d., and 26.d. In addition, as summarized below SBC provides further information regarding compliance with the Merger Conditions and the reporting of accurate and complete service quality data in accordance with the Business Rules.

Promoting equitable and efficient Advanced Services deployment

1. Separate Affiliate for Advanced Services

As provided in paragraph 67 of the Merger Conditions, compliance with this condition is addressed in a separate agreed-upon procedures engagement performed by Ernst & Young LLP (E&Y).

2. Discounted Surrogate Line Sharing Charges

This condition was sunset when line sharing was implemented on May 29, 2000.

3. Advanced Services Operations Support Systems (OSS)

The Company complied with the requirements of this Condition in the following manner:

- a. SBC offered, as required until April 8, 2002 (30 months after the Merger Close Date), to provide unaffiliated telecommunications carriers with direct access to Service Order Retrieval and Distribution (SORD) or equivalent service order processing systems for pre-ordering and ordering xDSL and Advanced Services.
- b. SBC continued to make available the enhancements to the existing Datagate or EDI interfaces for pre-ordering and ordering xDSL and other Advanced Services in all of the required SBC states according to the Future Mode of Operation Timeline – Release Schedule in the Plan of Record filed April 3, 2000 and Phase 2 of the collaborative sessions ended on December 22, 2000. SBC completed the Phase 3 enhancements to Advanced Services OSS by the October 22, 2001 deadline, except in Connecticut, where the enhancements were completed on August 6, 2002, as allowed by the Merger Conditions. SBC filed notice with the FCC on September 13, 2002, before the target date of September 22, 2002 that the requirements of Phase 3 for Connecticut had been completed.
- c. SBC provided telecommunications carriers in Connecticut the required discount of 25 percent from the recurring and nonrecurring charges for unbundled loops used to provide Advanced Services until after the sunset date of the condition. The Company discovered in late 2002 that one CLEC at Southern New England Telephone Company (“SNET”) did not receive the discount when it became eligible in April 2002. The Company identified the discount the CLEC should have received and remitted a credit retroactively.

Report of Management on Compliance With the Merger Conditions
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4. Access to Loop Information for Advanced Services

The Company complied with the requirements of this Condition in the following manner:

- a. SBC provided CLECs with non-discriminatory access to the same local loop information for the deployment of xDSL and Advanced Services that was available to SBC's retail operations, including the retail operations of the Advanced Services affiliates.
- b. SBC provided unaffiliated telecommunications carriers with non-discriminatory, electronic pre-order OSS access to the theoretical loop length on an individual address basis. Electronic pre-order OSS access was not required in Ameritech states until 22 months after Merger Closing Date ("MCD"), however SBC made preorder electronic access to loop length by individual address available in all regions in 2000.
- c. SBC provided unaffiliated telecommunications carriers with non-discriminatory, electronic pre-order Internet access to theoretical loop length based upon a zip code of end users in a wire center at no additional charge.
- d. SBC provided unaffiliated telecommunications carriers with non-discriminatory access to loop make-up information regarding the capability of loops to support Advanced Services that is available in SBC's records, in response to address-specific written requests.

5. Loop Conditioning Charges and Cost Studies

The Company complied with the requirements of this Condition in the following manner:

- a. The Company filed all required cost studies with proposed rates for conditioning xDSL loops by April 5, 2000 (within 180 days of the MCD). The proposed rates were based on FCC and state commission UNE pricing requirements. During the Evaluation Period, final approvals for state specific rates were not obtained from five remaining states.
- b. While final approval of state-specific rates was pending, interim loop conditioning rates for xDSL loops were made available to Advanced Services Providers. Additionally, no charge was assessed for conditioning loops of less than 12,000 feet (based on theoretical loop length) and authorization to perform and agreement to pay were obtained from the provider before proceeding with conditioning work identified by SBC.

6. Non-discriminatory Rollout of xDSL Services

The Company complied with the requirements of this Condition in the following manner:

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- a. When SBC had deployed xDSL in at least 20 urban or 20 rural wire centers in a particular state, at least 10 percent of the urban or rural wire centers in which xDSL had been deployed were wire centers identified from the Low-Income Pool.
- b. SBC filed quarterly reports with the FCC describing the status of the xDSL roll-out.

Ensuring Open Local Markets

7. *Carrier-to-Carrier Performance Plan (Including Performance Measurements)*

The Company complied with the requirements of this Condition in the following manner:

- a. SBC reported, on a monthly basis and in each of its states according to the schedule established in Appendix A to the Merger Conditions, its performance in 20 measurement categories (with sub-measurements) that address functions that may have a particularly direct effect on CLECs and their customers. SBC provided the FCC staff with the required performance measurement data for each month during the year 2002 for the Pacific Bell, Nevada Bell, Ameritech and SNET regions. These files were transmitted by the 20th of each month or the first business day after the 20th when the due date was on a weekend or federal holiday. In addition, these performance measurement results were also posted to the SBC Internet web site coincident with the monthly transmittals to the FCC staff. While substantially correct, as explained in Attachment A, occasionally certain data errors were either restated or corrected prospectively.
- b. SBC provided the FCC staff⁴ with notice of any changes to the design or calculation of the Carrier-to-Carrier Performance Plan adopted by the Texas or California State commissions. SBC notified the FCC on June 30, 2002 and on September 25, 2002 that the California Public Utility Commission had ordered changes to the SBC performance measurements. As directed by the Commission on August 7, 2002, and December 10, 2002, these changes were implemented for the SBC states of California and Nevada effective July 1, 2002, and September 1, 2002. SBC further notified the FCC on October 29, 2002 of additional changes to the business rules ordered by the Texas Public Utility Commission (TPUC). SBC discussed those changes with the FCC staff at the December 2002 semi-annual review meeting. At the staff's request, a copy of the October 2002 TPUC Order was filed with the FCC on December 27, 2002.
- c. The Chief of the Wireline Competition Bureau determines whether and when SBC will implement such changes adopted by the Texas state commission in the remaining SBC states except for California and Nevada, and whether and when SBC will implement such changes adopted by the California state commission in California and Nevada. On November 27, 2001 SBC requested permission to implement the Texas 2.0 business rules at Ameritech and SNET. The FCC approved SBC's proposed business rule changes (with certain modifications) effective with January 2002 results, in a letter released December 21, 2001. On

⁴ Chief of the Common Carrier as changed to Chief of the Wireline Competition Bureau in March 2002 pursuant to FCC 02-76.

Report of Management on Compliance With the Merger Conditions

August 29, 2003

March 27, 2002, SBC filed with the Secretary of the FCC that SBC had implemented the updates to the 2.0 Texas business rules. SBC also provided results back to January 2002 for those measurements where changes were in progress.

- d. The Plan remains effective for the SBC service area within each state, except for Connecticut, until the earlier of (i) 36 months after the date that SBC was first potentially obligated to make Plan payments for that state, or (ii) the first date on which SBC was first authorized to provide in-region, interLATA services in that state. The FCC approved 271 applications for Arkansas, Missouri, Kansas, Oklahoma, and Texas during 2000 and 2001 and no reports of performance measures were due from these states during 2002. The FCC approved the California 271 application on December 19, 2002 effective December 29, 2002 (FCC 02-330). The FCC issued a public notice on January 13, 2003 effective December 29, 2002 extinguishing the obligation to report performance measures for the state of California (DA 03-82). Accordingly, SBC provided the final report of California performance measures for November 2002 activity on December 20, 2002 for all measures.
- e. The Carrier-to-Carrier Performance Plan attached the obligation for SBC to make voluntary payments to the U.S. Treasury in all SBC states where 271 approval has not been obtained. SBC received additional explanation of the Common Carrier Bureau's (Bureau) views on the method for calculating payments under the Merger Order on February 6, 2002, and has implemented the Bureau's guidance. As further instructed by the FCC Staff on February 26, 2002, the final guidance is effective beginning with January 1, 2002 results. Each payment required during the 2002 Report Period was made to the Commission within 30 days of when the performance results became available or on the first business day after 30 days when the due date was on a weekend or federal holiday. These voluntary payments were not included in the revenue requirements of any SBC ILEC.
- f. Pursuant to the requirement that SBC and the Chief of the Wireline Competition Bureau shall jointly review the 20 measurements on a semi-annual basis, meetings were held between the FCC and SBC on June 6, 2002 and December 5, 2002 to review the performance measurements.

8. *Uniform and Enhanced OSS*

The Company complied with the requirements of this Condition in the following manner:

- a. SBC followed the terms of the amended Uniform and Enhanced Plan of Record ("POR") as directed by the FCC on September 22, 2000. In addition, on April 9, 2001 SBC applied to the Arbitration Panel duly appointed pursuant to the Section III.j of the POR for an extension of the mandated release dates for certain pre-order and order interfaces. The Arbitration Award, as filed with the Commission on June 4, 2001, extended the release dates for the pre-order and order interfaces from September 29, 2001 for Pacific Bell, Nevada Bell and SWBT, November 17, 2001 for Ameritech, and April 20, 2002 for SNET to February 28, 2002, March 22,

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2002 and September 22, 2002, respectively. On February 25, 2002, SBC submitted a letter to the Chief of the Common Carrier Bureau requesting to extend the deployment deadline for the development of uniform, electronic operations support systems ("OSS"), the FCC, in DA 02-695 dated March 22, 2002, granted the extension to April 24, 2002. SBC notified the FCC on April 26, 2002 that it had completed implementation of the Uniform and Enhanced Plan of Record in the Pacific Bell, Nevada Bell, SWBT, and Ameritech service areas. SBC notified the FCC on September 13, 2002 that it had completed implementation of the Uniform and Enhanced Plan of Record at SNET. All required notices regarding satisfaction of the target dates for completion were filed within the timeframes required by the Merger Conditions.

- b. SBC continued to offer to develop direct access to SORD and Ameritech's and SNET's equivalent service order processing systems, and to develop enhancements to the existing Electronic Bonding Interface ("EBI") for OSS that support maintenance and repair services until April 8, 2002 (30 months after the MCD).
- c. The Commission extended the target date for completion of Phase 1 of the Uniform Business Rules Plan of Record to March 15, 2001 in DA 01-454, released February 20, 2001 and then to April 30, 2001 in DA 01-594, released March 7, 2001. The Phase 2 collaborative sessions for the Uniform Business Rules Plan of Record began on April 30, 2001. The FCC, in DA 01-1915 adopted August 10, 2001 and released August 13, 2001, granted an extension of time for additional collaborative sessions and directed that Phase 2 would end on October 19, 2001. The FCC, in DA 01-2450 adopted October 18, 2001 and released October 19, 2001, granted a limited extension of time to conclude collaborative sessions on November 19, 2001. Based on this extension, Phase II ended on November 19, 2001. The Company has until April 19, 2003 to complete Phase III.
- d. SBC continued implementation of the 13-state Change Management Process (CMP) that was filed with the Commission on December 8, 2000. Several companies filed a response to that filing. SBC continued to negotiate with those companies and an agreement was reached. SBC filed the 13-state CMP with the commission of each of the 13-states on March 13, 2001.
- e. All required notices regarding satisfaction of the target date for completion of various phases of the OSS Improvement Plan were completed within the timeframes required by the Merger Conditions.

9. *Restructuring OSS Charges*

The Company complied with the requirements of this Condition during the Evaluation Period. SBC did not charge for the Remote Access Facility and Information Services Call Center or manual processing charges in excess of the charges that apply for processing similar orders submitted electronically for orders of 30 lines or less where SBC does not make an electronic interface available.

10. *OSS Assistance to Qualifying CLECs*

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SBC complied with requirements of this Condition during the Evaluation Period by maintaining OSS expert teams available to provide OSS training and support to qualifying CLECs at no charge.

11. Collocation Compliance

The Company complied with the requirements of this Condition 11 "Collocation Compliance" during the Evaluation Period in the following manner:

- a. SBC maintained the policy to issue refunds of 100 percent of the total non-recurring collocation costs to telecommunications carriers for collocation missed due dates in excess of 60 days.
- b. SBC provided collocation consistent with the FCC's collocation rules as described in Attachment B, except as follows:
 - i. In one instance where an application for physical collocation was denied on the basis that physical collocation was not practical because of space limitations, the Company did not deliver detailed floor plans or diagrams to the state commission. This instance occurred prior to May 2002, when SBC amended its policy to submit floor plans to state commissions in all instances of space denials, regardless of whether or not the state commission required them to be filed.
 - ii. Title 47 Part 51.321 (h) requires the Company to submit to a requesting carrier within ten days of the submission of the request a report describing in detail the space that is available for collocation in a particular incumbent LEC premises. The Company received such a request from one carrier for three central offices and provided the requested reports to the carrier in 11 calendar days rather than ten calendar days of the submission of the request.

12. Most-Favored-Nation Provisions for Out-of-Region and In-Region Arrangements

The Company complied with the requirements of this Condition during the Evaluation Period by making available to telecommunications carriers eligible service arrangements (i.e., interconnection arrangements or UNEs) to which SBC was a party either as the incumbent in its 13-state region or as a telecommunications carrier outside of its 13-state region. SBC posted approved out-of-region agreements secured by SBC to SBC's Internet web site.

13. Multi-State Interconnection and Resale Agreement

The Company continued to comply with the requirements of this Condition during the Evaluation Period by continuing to make available multi-state interconnection/resale agreements throughout the Evaluation Period. The Company entered into multi-state interconnection and/or resale agreements pursuant to requirements that pricing would be established on a state-by-state basis and that approval of the agreement in one state would not be a precondition for implementation in another state.

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14. Carrier-to-Carrier Promotions: Unbundled Loop Discount

The Company complied with the requirements of this condition during the Evaluation Period in the following manner:

- a. The Company offered the unbundled loop discount required by this Condition. The requirement to offer the discount on new orders sunset in 2001 in Arkansas, Connecticut, Kansas, Missouri, Oklahoma, and Texas. The FCC approved the California 271 application on December 19, 2002, effective December 29, 2002 (FCC 02-330) and the requirement to offer the discount sunset at that time.
- b. The Company continued to provide the unbundled loop discount for eligible loops ordered in those states where the offering window was open. Internal processes and procedures ensured the Company's wholesale business units were responsive to telecommunications carriers' requests for the promotional discount. The Company discovered that it had inadvertently failed to update the appropriate rate tables for certain CLECs in the Ameritech region, which resulted in the discount associated with this condition not being given to certain CLECs that had ordered loops eligible for the specified discount. Billing to the one affected CLEC was corrected in September 2002, and the Company in 2003 identified two additional CLECs impacted by the rate table update error that required correction. In addition, the Company became aware that a system error occurring in April 2002 caused orders for residential loops to be improperly entered as business loops in the Ameritech region. As such, CLECs did not receive the discount for eligible residential loops ordered subsequent to the error. The Company resolved the error as of November 9, 2002, and subsequently identified the affected loops for the impacted CLECs and applied correcting credits, in June 2003.

15. Carrier-to-Carrier Promotions: Resale Discount

The Company complied with the requirements of this Condition during the Evaluation Period in the following manner:

- a. SBC continued to offer the promotional resale discount required by this Condition during 2002. However, a previously disclosed error in the Ameritech states that resulted in inadvertent removal of the required discounts from resold services if the CLEC's end-user customer moved to another location was not corrected until April 2002. The Company contacted affected CLECs for the period prior to the correction to request information associated with these moves and issued credits upon identification of the credits due. In addition, in the SWBT region, certain CLECs did not receive the discount for a limited number of lines ordered during the evaluation period.
- b. Internal processes and procedures ensured the Company's wholesale business units were responsive to telecommunications carriers' requests for the promotional resale discount.

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- c. The reporting thresholds towards the maximum number of lines Promotions Resale Discount plus Promotional End-to-End UNE-Combination that SBC was required to provide at the promotions discounted price were not met in any state during the Evaluation Period.

16. Carrier-to-Carrier Promotions: UNE Platform

The Company complied with the requirements of this Condition in the following manner:

- a. SBC continued to offer the UNE platform promotion required by this Condition during the Evaluation Period and provided the UNE platform promotion to requesting telecommunications carriers.
- b. Internal processes and procedures ensured the Company's wholesale business units were responsive to telecommunications carriers' requests for the UNE-Platform Promotion.
- c. The reporting thresholds towards the maximum number of promotional UNE-Platform Promotion that SBC was required to provide were not met in any state during the Evaluation Period.

17. Offering of UNEs

The Company complied with this Condition by continuing to make available all UNEs or combinations of UNEs offered as of January 24, 1999, under the same terms and conditions that such UNEs or combinations of UNEs were made available on that date.

18. Alternative Dispute Resolution through Mediation

The requirements of this Condition were implemented in 1999, and Alternative Dispute Resolution through Mediations (ADR) remained available during the Evaluation Period.

19. Shared Transport in Ameritech States

The Company complied with the requirements of this Condition by continuing to make available shared transport in Ameritech States under terms and conditions, other than rate structure and price, that were substantially similar to the most favorable terms SBC offered to CLECs in Texas as of August 27, 1999.

The FCC's Enforcement Bureau, in its Notice of Apparent Liability for Forfeiture ("NAL"), File No. EB-01-IH-0030, released January 18, 2002 alleged that the Company, in violation of the Merger Order, did not provide shared transport in the Ameritech States under terms and conditions substantially similar to those that it offered in Texas as of August 27, 1999. The Company filed a response with the Commission on March 5, 2002 contesting the FCC's allegations. On October 9, 2002, the FCC in Forfeiture Order, File No. EB-01-IH-0030, upheld the NAL. On November

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8, 2002 the Company filed a Petition for Reconsideration with the FCC. The Company subsequently withdrew the Petition for Reconsideration and paid the amount assessed by the Forfeiture Order; however, the Company filed a Petition for Review of the Forfeiture Order in the U.S. Court of Appeals for the D.C. Circuit, *SBC Communications Inc. v. FCC*, No. 03-1118 (D.C. Cir. filed Apr. 28, 2003). The Petition for Review is pending.

20. Access to Cabling in Multi-Unit Properties

The Company complied with the requirements of this Condition in the following manner:

SBC, when hired to install new cables in a new or retrofitted multi-dwelling unit premises ("MDU") or multi-tenant premises housing small businesses ("MTU"), sent letters to developers and property owners stating that, unless the property owner objected, SBC would install and provide new cables to a single point of interconnection. This offering was contingent upon the property owner or third party owning and/or controlling the cabling beyond the single point of interconnection.

Fostering Out-of-Territory Competitive Entry (National-Local Strategy)

21. Out-of-Territory Competitive Entry (National-Local Strategy)

The Company complied with the requirements of this Condition in the following manner:

- a. On March 5, 2002, and prior to the April 8, 2002, deadline, the Company notified the Commission that it had satisfied the remaining initial entry requirements of the condition when it had installed local telephone exchange switching capacity and was providing facilities-based local exchange service to at least three unaffiliated customers in the following markets: Charlotte, Jacksonville, Las Vegas, Louisville, Memphis, Nashville, Norfolk, Portland, Raleigh and Tucson.
- b. On March 5, 2002, and prior to the April 8, 2002, deadline, the Company notified the Commission that in the New York, Atlanta, Ft. Lauderdale, Phoenix, Denver, Salt Lake City, Washington D.C., Minneapolis, Orlando, Baltimore, Philadelphia, Tampa, and West Palm Beach markets, the Company had satisfied the remaining Merger Condition requirements because it:
 - i. Had collocated facilities in at least 10 wire centers in the market that could be used to provide facilities-based service to customers served by those wire centers.
 - ii. Was offering facilities-based local exchange service to all business and residential customers served by the 10 wire centers in the market.
 - iii. Was offering local exchange service to all business customers and all residential customers throughout the areas in the market that were within the local service area of the incumbent RBOC located within the

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PMSA of the market or the incumbent service area of a Tier 1 incumbent LEC serving at least 10 percent of the access lines as shown in the updated Tier 1 LEC study of these wire centers.

- c. On August 21, 2002 the Company notified the Commission that it had fulfilled all of the requirements set forth in this condition for each of the 30 out-of-territory markets.

Improving Residential Phone Service

22. InterLATA Services Pricing

The Company complied with the requirements of this Condition by not charging minimum mandatory monthly or flat-rate charges to any residential wireline customers in any in-region state where it had authority to offer interLATA services during 2002, nor to any out-of-region residential wireline customers in 2002. During the Evaluation Period, the Company did offer customers optional, voluntary interLATA services pricing plans that included minimum monthly or minimum flat-rate charges.

23. Enhanced Lifeline Plans

The Company complied with the requirements of this Condition in the following manner:

- a. The Company continued to provide the Enhanced Lifeline plan in all the states that accepted the offer with discounts of up to \$10.20 per month as required by the agreement.
- b. SBC maintained toll-free access numbers for voice or fax communication with current and potential customers, and modified voice response units at its service centers to incorporate Enhanced Lifeline information for calls in which customers express an interest in obtaining new service, where the Enhanced Lifeline plan has been implemented.
- c. The Company provided on-line verification of eligibility in those states in which terms were negotiated to permit the Company to access information necessary to verify a customer's participation in an eligible program.
- d. SBC maintained promotional budgets, as required by the merger agreement, to make potential customers aware of the Enhanced Lifeline plan or other programs that benefit low-income consumers. The Condition requires the Company to spend a minimum annual promotional budget per affected state; however, the Company failed to meet the requirement in Indiana during 2002 due primarily to an administrative oversight in monitoring actual expenditures against the budget.
- e. In those states where the plan has been implemented, appropriate methods and procedures were maintained to implement operational provisions of the Enhanced Lifeline plan regarding payment arrangements for past due bills and no deposits are required for local service.

24. Additional Service Quality Reporting

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The Company complied with the requirements of this Condition in the following manner:

- a. SBC filed timely state-by-state retail service quality reports with the FCC on a quarterly basis in accordance with the Business Rules adopted by the FCC Staff and the Company on August 13, 2001. While substantially correct, certain data filed during the report period were either restated or corrected prospectively.
- b. SBC reported on a quarterly basis ARMIS local service quality data required by the FCC separately by state for each of its operating companies in accordance with Table I of ARMIS Report No. 43-05.
- c. In addition to computer files provided to the FCC Staff, SBC also posted the service quality data on a publicly accessible SBC Internet website. All routine quarterly reports and website postings were made no later than 50 days after a quarter's close or on the next business day when the deadline occurred on a weekend or federal holiday.

25. NRIC Participation

The Company complied with the requirements of Condition 25, "NRIC Participation" by SBC continuing its participation in the NRIC and SBC representatives attended NRIC meetings held on January 4, 2002, March 22, 2002, and September 13, 2002. Further, SBC participated in other NRIC-sponsored meetings through its membership in the United States Telephone Association and the National Telecommunications Association. SBC also supported, provided representation to, and participated in NRIC Focus Groups 1A Physical Security; 1B Cyber Security; 1C Public Safety; 1D Disaster Recovery and Mutual Aid; Focus Group 2 Network Reliability; Focus Group 3 Interoperability; and Focus Group 4 Broadband.

Ensuring Compliance with and Enforcement of These Conditions

26. Compliance Program

The Company complied with the requirements of this Condition in the following manner:

- a. A senior corporate officer served as Compliance Officer throughout 2002.
- b. On March 15, 2002, the Company filed its annual compliance report accurate to the best of its knowledge and belief at the time it was filed, which detailed its compliance with the Merger Conditions for Report Year 2001.
- c. On November 12, 2002, the Company filed with the FCC a supplement to the annual compliance report, which included information on items relevant to the 2001 Report Year which were not identified in the March 15, 2002 Report because they were discovered after that date. The supplement also included corrections of minor typographical errors, none of which had an impact on the Company's compliance with the Merger Conditions.